



A REPORT  
TO THE  
**ARIZONA LEGISLATURE**

Accounting Services Division

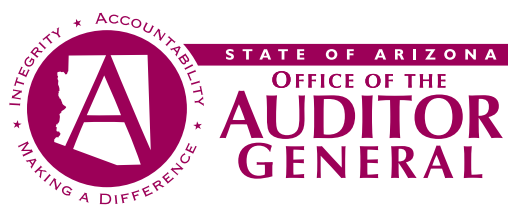
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Procedural Review

# **Bowie Unified School District No. 14**

As of August 28, 2003

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**Debra K. Davenport**  
Auditor General

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DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

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**OFFICE OF THE**  
**AUDITOR GENERAL**

WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

January 22, 2004

Governing Board  
Bowie Unified School District No. 14  
P.O. Box 157  
Bowie, AZ 85605-0157

Members of the Board:

We performed a procedural review of the internal controls of Bowie Unified School District No. 14 as of August 28, 2003. The purpose of a procedural review is to determine whether a district is in substantial compliance with the *Uniform System of Financial Records for Arizona School Districts* (USFR). Our review consisted primarily of inquiries, observations, and selective testing of accounting records and control procedures. The review was more limited in scope than would be necessary to express an opinion on the District's internal controls. Accordingly, we do not express an opinion on its internal controls or ensure that all deficiencies were disclosed.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District has not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Laura Miller, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

As you are aware, my Office issued an Investigative Report—Theft of Public Monies related to Bowie Unified School District No. 14, dated December 19, 2003. That report described the alleged theft of public monies by a former business manager and inadequate controls over the District's cash disbursement process, and included our recommendations concerning those matters.

Thank you for the assistance and cooperation that your administrators and staff provided during our procedural review. My staff and I will be pleased to discuss or clarify items in this report.

Sincerely,

Debra K. Davenport  
Auditor General

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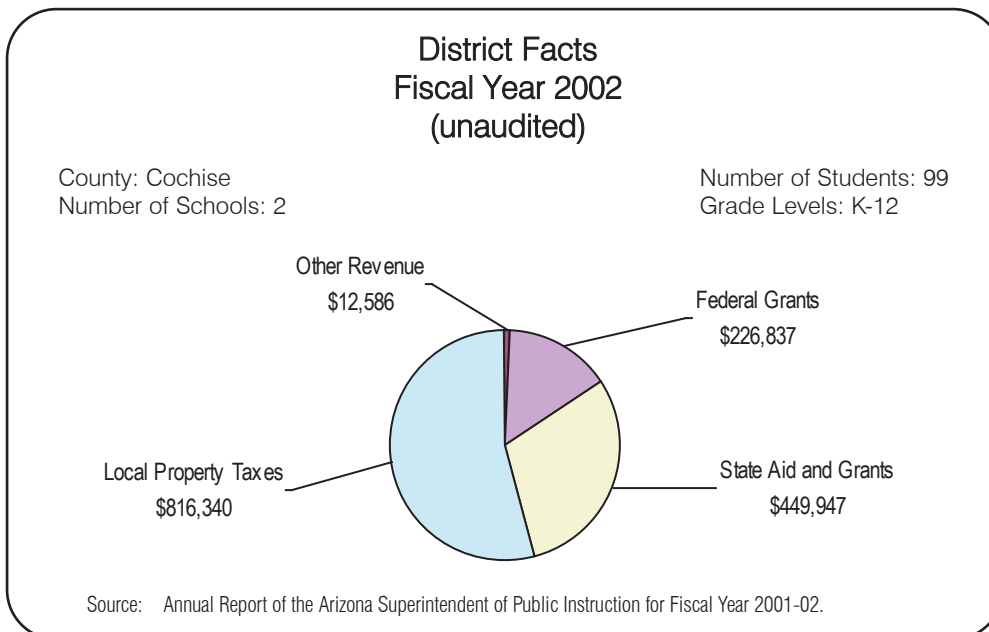


# INTRODUCTION

Bowie Unified School District No. 14 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$1.5 million received in fiscal year 2001-02 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education. The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our procedural review, we determined that the District has not complied with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship, and to comply with the USFR. Our recommendations are described on the following pages.



# The District should prepare and maintain accurate capital assets and stewardship lists

The District had not protected its investment in capital assets. It did not have capital assets and stewardship lists, and had not tagged all of its assets as property of the District.

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. Effective stewardship requires the District to have accurate lists of these assets and to ensure they are properly identified and accounted for. However, the District did not have capital assets and stewardship lists and had not performed a physical inventory of its equipment in the last 3 years. In addition, the District had not marked all asset items as district property using a tag or other identifying number.

## Recommendations

The following procedures can help the District improve controls over its capital assets and ensure that its stewardship and capital assets lists are accurate and complete:

- Prepare and maintain a capital assets list of items costing \$5,000 or more and with useful lives of 1 year or more.
- Prepare and maintain a stewardship list of equipment items costing \$1,000 or more, but less than \$5,000 (or the District's capitalization threshold approved by the Governing Board if less than \$5,000).
- Retain cost documentation for all items added to or removed from the capital assets list for a 3-year period after disposal of the assets. If the District cannot locate documentation to support the actual historical costs of its capital assets, it may use estimated historical costs obtained from historical cost appraisals, bond issue documents, governing board meeting minutes, or vendor catalogs.
- Affix a tag with an identifying number to each equipment item costing \$1,000 or more, or use some other means, such as serial number, to specifically identify each asset on the capital assets and stewardship lists.
- Update the capital assets and stewardship lists annually for items acquired, disposed of, or transferred.
- Perform a physical inventory of all equipment at least every 3 years. Assign an employee who has no custodial responsibilities to reconcile the physical inventory results to the lists and add items to or remove items from the lists as necessary.
- Reconcile items added to the capital assets list during the fiscal year to capital expenditures for that year, the prior year's capital assets list to the current year's list, and make all necessary corrections.

USFR pages VI-E-2 and 3 and USFR Memorandum No. 196 describe the information that should be recorded on the capital assets and stewardship lists.

Instructions for performing a physical inventory of capital assets are listed on USFR pages VI-E-8 and 9.

# The District's controls over student activities and auxiliary operations monies should be strengthened

The District holds student activities monies, raised through the efforts of students, for safekeeping. Auxiliary operations monies are district monies raised in connection with bookstore and athletic activities. The Governing Board is responsible for establishing oversight for these monies to ensure that proper procedures are followed for collecting and spending the monies.

However, proper oversight was not established. The Governing Board did not appoint a student activities treasurer. Additionally, for both student activities and auxiliary operations, the District did not separate incompatible duties among employees. One employee received cash, prepared deposits, maintained the accounting records, prepared checks, distributed checks, and was an authorized signer on the bank accounts. Also, student activities and auxiliary operations checks were not signed by two employees. Further, the District did not retain proper supporting documents and did not keep adequate auxiliary operations cash receipts and disbursements records. The District only maintained a check register. As a result, extracurricular activities fees tax credit monies could not be distinguished from other auxiliary operations monies.

The District did not maintain adequate auxiliary operations records so that extracurricular activities fees tax credit monies could be distinguished from other auxiliary operations cash receipts. As a result, the District cannot ensure that the monies are used for the designated extracurricular activity.

In addition, the District did not ensure that proper cash collection procedures were followed. Student clubs did not document cash receipts through the use of tickets, cash receipt forms, or by some other means. Additionally, cash collection reports were not prepared for student activities events or for certain auxiliary operations monies received to ensure that all cash was properly accounted for and deposited. Further, student activities and auxiliary operations cash receipts were not deposited in a timely manner. Finally, the District inappropriately included some grant and auxiliary operations monies in the student activities bank account and did not prohibit a donor of extracurricular activities fees tax credit monies from designating a student activities club as the recipient of the donation.

## Recommendations

The Governing Board should appoint a student activities treasurer to provide oversight, maintain club records, and sign student activities checks. For student activities and auxiliary operations, responsibilities should be separated among employees to ensure that the same employee is not involved in the entire cash receipts and disbursements process without proper oversight. Additionally, two



Sample forms to record cash collections and reconcile sales to cash collected can be found on USFR pages X-G-17 and 21 and X-H-21.

USFR Memorandum No. 203 describes the accounting requirements for extracurricular activities fees tax credit monies.

authorized signers should sign all student activities and auxiliary operations checks and the signers should only include current district employees. All documents to support cash receipts deposited in and disbursements made from the student activities and auxiliary operations bank accounts should be retained.

Additionally, the District should establish proper cash collection procedures that require the use of tickets, prenumbered cash receipt forms, or counts of items before and after a sale; and the preparation of cash collection reports to reconcile sales to actual cash collections. For student activities events where this is not practical, the District should document the amount of cash collected. Student activities and auxiliary operations cash receipts should be deposited daily, if significant, or at least weekly.

Also, the District should maintain detailed auxiliary operations cash receipts and disbursements records to document that extracurricular activities fees tax credit monies contributed by taxpayers are used appropriately. Since these monies belong to the District, student activities clubs are not legal recipients and the taxpayers' tax credits may be in jeopardy. Therefore, the District is obligated to return any designated contributions to the auxiliary operations bank account and use the monies for extracurricular activities.

## The District must follow competitive purchasing requirements

The District may not have obtained the best possible value when purchasing goods and services. For all purchases reviewed, oral and written price quotations were not obtained when required.

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not follow USFR guidelines, as it did not obtain written or oral price quotations for purchases that required them.

## Recommendations

To strengthen controls over competitive purchasing, the District should obtain written quotations from at least three vendors for purchases costing more than \$15,000 but less than \$32,700 (current sealed bid threshold), and obtain oral quotations from at least three vendors for purchases costing more than \$5,000 but less than \$15,000. The purchase may be a single item within the price range, or it may be a collection of items that, in the aggregate, are within the price range. The District should attach, to the related requisition form or purchase order, the vendors contacted and their price quotations. If the District cannot obtain three price quotations, it should document the

USFR guidelines require:

- Oral price quotations for purchases between \$5,000 and \$15,000.
- Written price quotations for purchases between \$15,000 and \$32,700.

vendors contacted and their reasons, if known, for not providing a quotation. A vendor may be selected for reasons other than the lowest price, such as work or product quality; however, the District should fully document those reasons. In the event the District makes a purchase costing more than \$32,700, the District should follow the School District Procurement Rules.

## The District should establish stronger controls over expenditures

The District spends tax dollars to purchase goods and services, so it is essential that the District follows procedures designed to help ensure that its purchases are properly approved before committing district monies and it properly processes these transactions. However, the District was lax about following those procedures. For example, the District did not always ensure that purchase requisitions and purchase orders were prepared or reviewed and approved before ordering goods and services. As a result, the District did not ensure that sufficient cash was available in cash-controlled funds or that budget capacity was available in budget-controlled funds before making purchases.

In addition, the District did not always follow good internal control practices, such as prepare receiving reports, check invoices' accuracy, pay invoices timely to avoid finance charges, cancel supporting documents when paid, and accurately code expenditures to the appropriate function and object codes. Further, the District had not established or followed policies for the use of district credit cards.

The District did not ensure that purchases were approved before goods and services were ordered and that payments were properly processed.

## Recommendations

To strengthen controls over the expenditure process, the District should establish and follow the policies and procedures listed below:

- Prepare purchase requisitions that are signed and dated by the preparer and approved by an authorized employee.
- Verify that sufficient cash or budget capacity is available before approving expenditures.
- Prepare prenumbered purchase orders and obtain approval from an authorized employee prior to ordering goods or services.

USFR pages VI-G-2 through 5 describe expenditure processing procedures.

USFR pages VI-G-7 and 8 provide guidance on the proper use of district credit cards.

- Have an employee who is not involved in purchasing prepare receiving reports, indicating the date and quantity received, condition of items, and signature of employee receiving the items.
- Assign an employee to review vendors' invoices for mathematical accuracy, indicating evidence of such review on the invoice.
- Cancel all supporting documents after the invoices are paid to prevent subsequent use, and pay all invoices promptly to avoid finance charges and late fees.
- Review account code descriptions in the USFR Chart of Accounts prior to classifying financial transactions and recording them in the accounting records.
- The Governing Board should establish written policies and procedures governing the use of district credit cards and provide them to authorized employees. These policies should specify purposes for which the cards may be used, dollar limits for charges, and require an effective accounting system to account for and control the cards. In addition, credit card billing statements should be compared to the supporting documentation to ensure that charges were appropriate.

## The District should strengthen controls over the Maintenance and Operation Fund revolving bank account

The Maintenance and Operation (M&O) Fund revolving bank account is used to pay for minor purchases that serve an educational or public purpose and should be maintained on an imprest basis. An imprest basis means the check register balance and invoices for checks issued from the account should equal the authorized amount at all times. To replenish the account, the District should submit a voucher to the County School Superintendent (CSS) equal to the amount of checks paid from the account. However, the District did not follow these guidelines, as the revolving account balance plus the invoices for items paid from the account was less than the imprest amount of \$1,500.

In addition, the District used M&O Fund revolving account monies to purchase food for a back-to-school community event without obtaining governing board approval. These purchases may represent a gift of public monies in violation of the Arizona Constitution, Article IX.

## Recommendations

To properly control the M&O Fund revolving bank account, the District should operate the account on an imprest basis. The employee who reconciles the account each month should verify that the combined check register balance and invoices for checks issued from the account equals the authorized amount. In addition, to help prevent the possible misuse of public monies, expenditures should be reviewed to ensure compliance with Article IX, §7 of the Arizona Constitution which prohibits gifts or loans of public monies. M&O Fund monies are public monies, which may not be expended on private individuals unless there is a public purpose served and the amount paid does not far exceed the value the public receives. The District should obtain written governing board approval for expenditures that are not clearly for district operations, and include with the approval the Governing Board's determination that such expenditures meet these two conditions. Further, the District should retain such documentation with the expenditure documentation.

## The District's procedures for processing payroll need improvement

Salaries, wages, and related payroll costs are a major portion of the District's total expenditures. Therefore, it is critical for the District to have strong payroll processing controls to ensure that employees are paid accurately. However, the District did not have adequate controls over payroll processing. Specifically, the payroll registers were not reviewed and approved by an employee other than the preparer before being submitted to the CSS. In addition, the District did not ensure that time sheets were properly completed and approved by the employee's supervisor. Further, the District overpaid one of five employees tested for one pay period. Finally, the District did not have policies for overtime, compensatory time, or disposition of accrued leave.

USFR page VI-H-1 describes the appropriate separation of duties for payroll processing.

## Recommendations

To help strengthen controls over payroll processing, the District should implement the following procedures:

- Separate responsibilities so that one employee prepares the payroll and another reviews the payroll register before submission to the CSS.
- Require employee time sheets to be fully completed and approved by the employee's supervisor.

- Establish policies governing leave including prescribed accrual rates for specified years of service, maximum amounts allowed to be accrued, and disposition of accrued time upon termination of employment. All leave (other than emergency or sick leave) should be approved in advance in writing and the balances of vacation and compensatory time earned or used should be verified prior to approval of the leave. In addition, policies should require supervisors to approve overtime in advance.
- Maintain current and complete personnel files.